

## **Burlington Telecom FY 2013 Budget**

**1 July 2012 – 30 June 2013**

### **Overview**

Created in 2004, as one of the nation's first municipal fiber builds, BT passes almost 16,000 properties, as well as connecting all of the City's municipal offices, schools and essential services. BT competes with large multinationals offering internet, telephone and video (TV) services to residential customers and businesses, using fiber optics, the broadband distribution infrastructure of the future. The use of fiber optics provides a network, capable of delivering symmetrical bandwidth speeds far in excess of traditional delivery infrastructures used by other residential service providers. BT is located in downtown Burlington.

This fall BT will begin an essential upgrade of its network electronics, enabling it to offer symmetrical bandwidth speeds of up to 1 gigabit, to any home or small business that it passes, ( it already offers such capability to large commercial customers) making it one of only a handful of locations in the entire US capable of doing so.

On a practical level, that will mean instantaneous downloading and streaming of video and music and games with no delay and no buffering etc., even where there are several simultaneous users in the same home. It also offers an alternative medium for those who prefer to stream video programming from an increasing number of internet sources rather than buy bundles from the national cable companies. For the future it means the City is well placed to benefit from future application developments in such areas as telemedicine, security, education and research, where much development is now focused, and where applications under development offer the opportunity to transform traditional models of delivery.

From a commercial application perspective, it could mean that a radiologist would have the opportunity to receive and study an MRI or an x- Ray in their home office as well as their place of work, it means games or educational or medical applications developers being able to interact with home offices thousands of miles away, instantaneously, with no delay, and it offers the opportunity for small entrepreneurial heavy bandwidth usage start-up companies, to escape the constraints of expensive large population city center locations.

### **Background**

The BT entering FY 2013 is a different one than two years ago; at the end of FY 2010. It is leaner, more flexible and nimble, more aware of its customers, has a significantly lower cost base, and in spite of a shortfall in FY2012 sales against prior year, approaching \$500,000, it remains cash flow positive pre debt, but after paying interest on the City's \$16.9 million.

Operationally, BT is now poised to begin grow its revenues again, its phased internal reorganization of the past eighteen months, almost complete. Although budgeted growth for FY 2013 is modest, laying the foundations for sustainable revenue growth and an improved customer experience, are at the core of BT's FY2013 operational plan. The figures also reflect necessary capital equipment expenditures to remain competitive.

### Financial Summary

| (\$000's)                       | <b><u>Actual<br/>FY 2010</u></b> | <b><u>Actual<br/>FY2011</u></b> | <b><u>Budget<br/>FY2012</u></b> | <b><u>Forecast<br/>FY2012</u></b> | <b><u>Budget<br/>FY2013</u></b> | <b><u>Variance<br/>FY13/FY12</u></b> |
|---------------------------------|----------------------------------|---------------------------------|---------------------------------|-----------------------------------|---------------------------------|--------------------------------------|
| Revenues                        | 7,127                            | 7,189                           | 7,313                           | 6,719                             | 6,987                           | 268                                  |
| Gross Margin                    | 4,940                            | 5,156                           | 5,218                           | 4,744                             | 5,094                           | 350                                  |
| GM%                             | 69.3%                            | 71.7%                           | 71.3%                           | 70.6%                             | 72.9%                           | 2.3 points                           |
| Operating Costs                 | 4,677                            | 4,244                           | 3,888                           | 3,641                             | 3,958                           | (317)                                |
| EBITDA                          | 262                              | 912                             | 1,330                           | 1,103                             | 1,136                           | 33                                   |
| %                               | 3.7%                             | 12.7%                           | 18.2%                           | 16.4%                             | 15.1%                           | (1.3) points                         |
| Capital Expenditure             | 1,081                            | 290                             | 513                             | 353                               | 701                             | (348)                                |
| Cash Flow<br>(Pre Debt Service) | (819)                            | 622                             | 817                             | 750                               | 435                             | (315)                                |

### FY 2012 (9+3) Forecast

- Over the course of FY 2011, with the ongoing adverse publicity surrounding its funding, BT lost almost five and a half percent of its subscribers. During the first half of FY 2012 it lost a further 1.3%. Given the tenor of the adverse publicity and commentary, BT's customer base has proved remarkably loyal
- The net impact of this was a reduction in BT's year on year revenues, approaching \$470,000, and a shortfall against budgeted FY 2012 revenues of \$594,000. Though meaningful, there overall loss of revenues remained below 10%, in an environment where it might have been much worse
- In spite of this, BT was able to reduce operational costs further, by \$603,000 against FY 2011, and \$247,000 against budget, as well as carefully manage its capital expenditures to ensure that its cash flow was close to that originally budgeted, and better than FY 2011 cash flow in spite of the meaningful drop in revenues
- At the same time, BT continued the process of its internal reorganization. In January of 2012, BT hired a Residential Sales manager after eighteen months of the position remaining vacant, and subsequently undertook a review and reorganization of that area with a view to improving the overall customer experience and bringing selling skills into BT. The newly formed Commercial sales and service team also began to develop and expand its contacts and relationships in the community.
- By the end of CY 2011, BT had largely ended its reliance on outside consultants, apart from the role of GM, which is part time. No other consultants are regularly used in the operating business, although BT retains an ongoing (non-financial) operational relationship with HBC and its CEO Gary Evans.
- The ongoing BT subscriber loss had moved to modest growth by the end of the second half of FY 2011, for the first time in two years, with residential subscriber counts growing to offset the first half loss of 1.3%, and commercial account numbers growing by a further 5% in addition to 5% growth in the first half of FY 2012.

Overall, through 12 June, subscriber numbers are up by 1.9% on the first half of the year and by 0.9% for the full year. The Commercial team has continued to add customers throughout the year and In recent months has also signed a multi-year agreement to become the exclusive provider of video and data services for a new privately built UVM hall of residence, due to be completed in July 2012, with over 500 students scheduled to move in this August.

- Overall total BT subscribers as of today are 4,051, up from a low of 3,958 in December 2011, and leaving BT with a more stable foundation on which to build in FY 2013.

#### Subscriber Numbers

|         | <u>1 July</u> | <u>1 January</u> | <u>% change<br/>6 months</u> | <u>1 July*</u> | <u>% change<br/>6 months</u> | <u>% change<br/>FY 2011</u> |
|---------|---------------|------------------|------------------------------|----------------|------------------------------|-----------------------------|
| FY 2011 | 4,245         | 4,087            | (3.7) %                      | 4,016          | (1.7) %                      | (5.4) %                     |
| FY 2012 | 4,016         | 3,982            | (0.8) %                      | 4,051          | 1.9 %                        | 0.9 %                       |

\*12 June actual for FY 2012

#### FY 2013 Budget

The budget has a number of parallel operational focuses:

- Building commercial and residential subscribers and revenues
- Launching a new BT website, in July enabling direct customer communication and marketing
- Improving the customer experience through improved customer services
- Expanding Community Involvement
- Positioning the business to be able to respond positively to increased demand
- Necessary replacement and updating of equipment

#### FY 2013 Budget Financials

- BT continues to be focused on generating the cash flow necessary to fund its ongoing operations, while servicing the debt on the City's \$16.9 million
- For the third year in a row, BT has absorbed content cost increases and labor and other cost increases, rather than increasing its prices to consumers
- The budget is constructed in a way that will enable BT to meet this objective even if revenues do not grow as anticipated
- In looking at and understanding year on year variances for BT, its necessary to take both revenues and costs into consideration, and their potential impact on available cash flow
- Key Year on year variances impacting cash are:

(\$000)

- Gross Margin 350 increased revenues and reduced bandwidth costs
  - Pension, COLA, Health Insurance (104) mandated annual increases and premium increases
  - Additional Headcount (64) technical assistance
  - Additional Headcount Reserve (124) only hired if revenues justify or necessitate
  - Other Operating Costs ( 25) less consulting, increased marketing and revenues
  - Total Operating Costs (317)
  - Capital expenditures (348) essential equipment upgrades
  - Net Change in Cash Flow (315)
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- FY 2013 overall cash flows budgeted at \$315,000 below FY 2012 forecast cash, due entirely to essential equipment upgrades.
  - Operating cost increases kept below additional margin generated from increased revenues and reduced bandwidth costs. If revenues do not materialize, headcount reserve positions will not be hired
  - BT's proposed FY 2013 budget anticipates modest revenue growth following the loss of revenues in FY 2012, largely as a result of subscriber losses through 2011 and the first half of FY 2012. It also positions BT to be able to handle additional growth, while continuing to improve customer service
  - Should growth not materialize, cash flow remains protected, as additional planned resources are not needed
  - Reduction in overall cash flow budgeted, solely due to capital expenditures necessary for essential equipment upgrades

#### FY2012 Management Letter

- No specific BT issues to address